INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 13 September 2018

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, we will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of this month. After September 2018, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and we anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases. We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The incoming information, including our new September 2018 staff projections, broadly confirms our previous assessment of an ongoing broad-based expansion of the euro area economy and gradually rising inflation. The underlying strength of the economy continues to support our confidence that the sustained convergence of inflation to our aim will proceed and will be maintained even after a gradual winding-down of our net asset purchases. At the same time, uncertainties relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently. Significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This support will continue to be provided by the net asset purchases until the end of the year, by the sizeable stock of acquired assets and the associated reinvestments, and by our enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.4%, quarter on quarter, in the second quarter of 2018, following growth at the same rate in the previous quarter. Despite some moderation following the strong growth performance in 2017, the latest economic indicators and survey results overall confirm ongoing broad-based growth of the euro area economy. Our monetary policy measures continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by rising wages. Business investment is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the expansion in global activity is expected to continue, supporting euro area exports.

This assessment is broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020. Compared with the June 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2018 and 2019, mainly due to a somewhat weaker contribution from foreign demand.

The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. At the same time, risks relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently.

According to Eurostat’s flash estimate, euro area annual HICP inflation was 2.0% in August 2018, down from 2.1% in July. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around the current level for the remainder of the year. While measures of underlying inflation remain generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening and broadening amid high levels of capacity utilisation and tightening labour markets, which is pushing up wage growth. Uncertainty around the inflation outlook is receding. Looking ahead, underlying inflation is expected to pick up towards the end of the year and thereafter to increase gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion and rising wage growth.

This assessment is also broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2018, 2019 and 2020, which is unchanged from the June 2018 Eurosystem staff macroeconomic projections.

Turning to the **monetary analysis**, broad money (M3) growth declined to 4.0% in July 2018, from 4.5% in June. Apart from some volatility in monthly flows, M3 growth is increasingly supported by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations stood at 4.1% in July 2018, while the annual growth rate of loans to households stood at 3.0%, both unchanged from June.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt is high and for which full adherence to the Stability and Growth Pact is critical for safeguarding sound fiscal positions. Likewise, the transparent and consistent implementation of the EU’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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You've decided to reduce bond purchases from October. But you've still left the ending of the programme at the end of the year open to or dependent on the incoming data. Could you walk us through the arguments behind that decision; why leaving the ending of the programme still open?

Based on the forecast you've received today and the discussion that you had, would you say that the output gap in the eurozone is already closed or is close to being closed this year? Or we'll still have to wait for that to happen next year?

The answer to your second question is that we have seen growth rates now for some time above growth potential. To the first question, basically we haven't discussed this. My reading is here: we will reduce the monthly pace until the end of December. We anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases. I think that's the text, that's what we've discussed; we haven't elaborated on that. But let me make clear that it's – when we stop, this doesn't mean that our monetary policy stops being accommodating. The amount of accommodation will remain very significant, through our reinvestment policy and through our forward guidance and interest rates.

Your new economic forecasts suggest that inflation will hover around 1.7% for the next two and a bit years; is that consistent with these mandates and the decision to phase out QE?

In relation to that: shouldn't the ECB be aiming for an overshoot on inflation rather than an undershoot given that it's been below target for so long?

The answer to the first question is, yes, it's consistent. We have seen convergence and that's what the discussion today confirms. We are seeing convergence of the inflation rate to our aim. We have confidence that this is happening, confidence based first and foremost on our monetary policy, which remains accommodative and second, on the underlying strength of the economy. The ever-improving conditions of the labour market - we’ll maybe elaborate on that. But certainly the last number is also quite significant. The latest number about employment, it says that 9.2 million jobs have been created in the euro area since 2013 and rising wages. We are confident that our present monetary policy stance is consistent with our aim.

Second point: our objective is an inflation rate which is below, but close to 2% over the medium term; we stay with that, that's our objective.

I'd like to ask about whether or not there was any discussion – or even a discussion of when you will have a discussion – on the reinvestment policy.

I'd also be interested in your personal view of this idea floating around of an “Operation Twist”-style operation that could perhaps be tailored to the needs of specific eurozone member states.

Now, frankly we haven't discussed and we haven't – as I said last time, we haven't even discussed when we are going to discuss it. Now, having said that we have two meetings before year-end. So we either discuss next time or in December. It's just a matter of – we'll take this decision in the coming days, really. It was going to be at the level of committees first and foremost because it'll have to be prepared – properly prepared. Other than that, as you've seen from my reading, the reinvestment statement is exactly the same as before.

Now, we haven't discussed either the “Operation Twist” or whether to reinvest in different maturities. I think what I said last time – and I can confirm that even though we haven't discussed, I believe the Governing Council would be pretty unanimous on that – is that the capital key will remain the guiding principle.

Even if it looks open-ended, let's say that QE is about to end and there is growing confusion in Italy I think about what QE has been really all about. Some people think that QE is a sort of securities markets programme and that the end of QE will mean that Italy in particular will be abandoned, left alone to fight against attacks of speculators. I don't know whether you want to comment on what QE is really all about.

It's actually a comment made on other occasions in different contexts. The mandate of the ECB is price stability in the medium term. QE has been one of the tools we used to pursue this task. In the past the ECB was asked: why are we keeping, for example, interest rates negative and we are depriving the savers from their income? Or why are we hurting insurance companies, banks, through low interest rates? As always answered, the mandate of the ECB is not to protect bankers' profits or insurance companies' profits. In this case, responding to your question, it's not to ensure that government deficits would be financed under all conditions. Our task is to pursue price stability.

You've mentioned increasing risks concerning emerging markets. The currency crises in Argentina and Turkey seem to have contagion effects on other emerging markets. How much of a threat is that for the eurozone economy and the world economy?

The current problems in the emerging markets seem to be related at least partly also to the tightening of monetary policy in the US and the withdrawal of liquidity. The ECB also anticipates to stop net purchases next year. What kind of risks do you expect when the two main central banks reduce liquidity?

Well, considering the first questions, the increased uncertainties in some emerging markets is certainly one factor that adds to the general uncertainty in world markets. But having said that, so far the spillovers from Turkey and Argentina to other countries have not been substantial. Once again as we've seen two or three years ago with similar crises in emerging markets, once again it is shown that the countries that are most vulnerable to contagion are the countries which have the weakest fundamentals; namely high current account deficit, high inflation, high budget deficit. Other emerging market countries that have better fundamentals have not been affected. I think that's one key consideration which is also, in a sense, seen from the perspective of the eurozone reassuring. So far we've seen quite limited contagion at least in the aggregate. Now, of course we can have individual situations of significant exposure to local crises. That's different because that would affect individual entities, but not in the aggregate.

Now, I think I listed three sources of uncertainty. One is the general change in the situation of emerging markets, which by the way doesn't include only Argentina and Turkey because big changes are also happening in China of a different kind, however, not financial stability-related. The second source of uncertainty is indeed the potential – we haven't seen much of it yet but it's one of the risks we're looking at, we are certainly monitoring – the potential financial market volatility generated by changes – gradual, at measured pace as you know – changes in monetary policy in the main jurisdictions. This is one potential risk of enhanced financial volatility and we're also monitoring that.

Certainly the major source of uncertainty that we see in global output comes from the rising protectionism. That is the major source of uncertainty which, by the way, is reflected in the current macroeconomic projections only to the extent of the measures that have been implemented already. The current projections do not reflect measures that have been announced, measures that have been threatened. Clearly, there we have to look at basically three factors that may make this uncertainty more severe. One is clearly, we have to see, we have to assess the extent of an escalation; that is one factor that certainly we have to look at. The so-called confidence effects; besides the effects on prices and tariffs and quotas and volumes, trade and so on, what is going to be the effect on general confidence of an extended trade war? That is certainly a second factor. The third factor which makes any assessment quite difficult is to assess; what are the implications on the international value chain of changes in tariffs of a broad and significant proportion?

I would like to ask you what you think about the remarks by the head of the European Commission, Mr Juncker. In his state of the union address he was calling for the euro to be an international reserve currency which could potentially rival also the US dollar. Would you support that as the ECB, as an institution?

Then let me bring you back ten years ago, when the Lehman crisis was just happening. The anniversary is this Sunday or Saturday. If you think back, what was the biggest challenge for you and in also the years afterwards to fight the crisis which started then?

Well, the answer to the first question is we are really interested to see; what are the proposals of the Commission? We stand ready to cooperate with the Commission on defining or enhancing the international role of the euro. As you know, it's not part of our mandate but we certainly stand ready to work with the Commission and with the other member states.

On the second question, well, this answer could be very long. I'll tell you what I would like to remember of that period of time. First of all, for us the crisis actually started before Lehman. The first serious signs of an impending crisis actually date back to September 2007, so much so that by the end of 2007 the G7 and, right after that, the G20 decide to task what was called the FSF; the Financial Stability Forum, which is the precursor of the Financial Stability Board, with a response to the crisis. The FSF created at that time a working group across countries and produced an answer by April 2008 with 77 recommendations, most of which have been implemented. Others are still in the way of being implemented. That was the first answer. What I remember of that instance is the extraordinary effort of international cooperation at world level. In other words, even before Lehman it was quite clear that the financial crisis was coming and it would have unprecedented proportions and was worldwide. This is what was at the basis of this really unprecedented and international effort.

I can say that since then there hasn't been one aspect of the banking business that has not been touched by the regulators and the supervisors. All this effort was in a sense crowned by the agreement that was found by the Basel Committee and by the GHOS; the governors' enhanced supervision in Basel at the end of last year. So it took ten years to actually crystallise the effort, by the way many parts of this had already been introduced in the supervisory practices and in the regulation.

Now, current developments are also worth looking at. In other jurisdictions we could sort of fear a backtracking to a world where there is less regulation. In the European Union we don't see that danger. As a matter of fact, the banks are stronger. Just look at this; the common equity tier 1 ratios were something like around 8%, 8.5% in 2008. Now, are 15.6% for the banks. The leverage ratio was 3.7% way back then and now it's over 5%. Also liquidity management, morale, risk management, governance have all been overhauled by the legislators, by the regulators and by the supervisors. All in all, the banks are stronger today.

Can we actually be, in a sense, complacent? The answer of course is no because in the meantime a lot of this business has migrated from the banking world to the non-banking world, the so-called shadow banking. So the next step will be to ensure that equally strong regulation and supervision, of course one has to take into account the differences in institutions, would also be applied to the non-banks.

Back to policy, if I may: did you discuss changing your policy message to say that the balance of risk was tilted to the downside?

The second question is about Italy and it's about the fact that bond yields have risen in recent months. How's that affecting financing conditions at large in Italy and in the periphery?

Well, the answer to the first question is no, we haven't changed the balance of risk about growth. It can still be assessed as broadly balanced. At the same time, risks relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently. So the balance of risk hasn't changed. Now, why hasn't it changed? I've listed just a series of downside risks. There are also upside risks, one of which is the fiscal policies. Fiscal policies in several euro area countries are going to be probably less neutral than we had expected some time ago.

That's one, but the other much more important consideration is that we are observing an underlying strength of the economy that makes us think that the downside risks are going to be mitigated by this fact, by the – as I mentioned before - improvement in the labour market and the rise in wages, which are the main drivers that support consumption. Private consumption is supported exactly by these two drivers primarily, and only secondarily by the increase in wealth, in household wealth. Investment is also being supported by the quite accommodative financing conditions. Even though they have tightened somewhat since the last meeting, the lending conditions to firms and households remain very favourable. That was the answer.

The second question was about Italy. Let me say something I was about to say before when I was asked about Italy. First of all, words in the last few months have changed many times. What we are now waiting for is facts, and the main fact is the draft budget law – and not only that – and the subsequent parliamentary discussion. We have to see how that is and then savers, capital markets, investors will formulate their view. Unfortunately we've seen, as you said before, that words have created some damage. Interest rates have gone up and they've gone up for households and they've gone up for firms. By the way, this is another interesting point: all this hasn't created much of a spillover to other euro area countries. It's remained, at least so far, pretty much an Italian episode.

Now, having said that we have to basically be aware that the Italian Prime Minister, the Italian Minister of the Economy, the Italian Foreign Affairs Ministers have all said that Italy is going to respect the rules.

I go back to Italy, but this problem with the spread could be a possible challenge for the global market. So the European Central Bank could decide next year to take other measures – like in the past - so that Italy doesn't go on to be a contagious reason.

The other side, Mr Moscovici said today that Italy is a problem for the European Union and for the eurozone. What do you mean about this opinion?

Look, the first answer is we haven't seen any contagion yet.

The second thing is, I repeat what I said before: the ECB will stay with what the Italian Prime Minister, the Italian Minister of the Economy and the Italian Foreign Affairs Ministers have said; namely that Italy will respect the rules.

Today there has been a recommendation by the private sector group to take the ESTER as a new euro risk-free rate. I'd like to know if the ECB is endorsing that decision.

Secondly I'm wondering about the fallback rate. As far as I know, the ECB was trying to deliver ESTER as a fallback rate in case the private sector could not agree on a new benchmark rate. Now thequestion is: if ESTER will become the new EONIA, what will be the fallback rate after our banks need a fallback rate when they use such a systemic benchmark?

Today just not long ago the private sector working group has recommended to use the euro short-term rate – that's why it's called ESTER – the euro short-term rate as an alternative free rate as a replacement for EONIA that no longer meets the criteria of the EU benchmarks regulation. It will see its use restricted as of the January 2020. So we welcome this decision, because also it brings the euro area closer to other jurisdictions where this issue's been addressed already.

Of course we want to state clearly that the private sector plays the dominant role in ensuring a smooth transition, but this transition's just started. There is a subgroup of the working group led, by the way, by a former colleague of mine in the Executive Board and a countryman of Mr de Guindos, Mr González-Páramo, that actually will oversee exactly the point that you raised; namely what should be done to ensure the robustness of the contractual arrangements that are based on other benchmark rates on Euribor and EONIA? So we can't say much about the future of Euribor because that depends very much on the administrator of Euribor and on the regulators; namely ESMA and FSMA.

I would also like to touch on a more historic dimension. Your predecessor, Jean-Claude Trichet, in an interview expressed his concerns that we have a high volume of debts at the moment

worldwide, comparing it with the situation ten years ago, when debts also triggered the previous crisis. Do you agree with his assessment, which is quite strong?

If so are you actually also concerned that this high volume of debts, although it may be different now than in the past, may be able to trigger a new crisis?

Yes, I do agree with this assessment, which is also the assessment the IMF now has been saying for several months; the debt levels worldwide remain high, or in some parts of the world have gone up. As far as the euro area is concerned however, things are slightly different – not in the sense that debt is not high; debt is high in the euro area as well. But private debt has actually gone down. It went down and a significant de-leveraging has taken place both in financial and non-financial parts of the economy. The balance sheet of both financial companies and industrial manufacturing companies is now much stronger than it was before. I mentioned before some of the numbers concerning banks. But the same could be said about non-financial corporations. So private debt has gone down. Public debt stays high and that's why we always say that countries where public debt is high should be the first to rebuild fiscal buffers. Otherwise if we have a new crisis they don't have any policy space.

Is it conceivable that the bank could raise rates in steps of greater than ten basis points after the end of the current forward guidance period?

Is the ECB prepared to respond to any slowdown in eurozone growth or inflation by delaying an increase in its overnight lending rate to banks rather than adjusting its other key rates or resorting to more asset purchases?

I'm sorry, both questions might be in principle very interesting questions but we haven't discussed that. I'm pretty sure there will be a time when we will have to discuss these questions but it's now premature.

Did you discuss at all the signs of a weakening in industrial production toward the end of the summer? You spoke about your optimism for the eurozone economy. Some of the data we've seen recently may give cause for concern.

Do you have any discussion at all about the fiscal uncertainty in the US presented by the upcoming mid-term elections?

Answering the second question first, we actually didn't discuss that to any extent other than saying two things that I can remember of our very short discussion is that this fiscal expansion is pro-cyclical. There are dangers that its effects could wane in 2020, so the risk there is of an increase in interest rates accompanied by a weakening of economic activity. That's I think the only point that was briefly discussed in the various presentations that were made about the state of the world economy.

On the first question, yes, we had this drop in industrial productions but again – this was looked at as one of the signs of convergence of the economy to its steady state path. Namely we had quite unusual strong growth last year based also on a pretty strong unusual export performance. Now, the external part of this growth now is getting weaker and therefore we do expect some weakness in the domestic part as a reflection of that. At the same time, the domestic part remains resilient because of the consumption and investment performances I have hinted at before. All in all, yes, we've taken note of that. But the unanimous view of the Governing Council was that the present monetary policy stance is robust; namely even if there are limited changes in policy parameters due to the various effects we've just discussed, the policy stance doesn't change.

A quick follow-up question on the risks: you said they are broadly balanced but I want to know if it was the view that was shared among the whole Governing Council, or were the members may be in favour of a more darker expression to take account the threats we know about.

On the emerging economies, the worst sign that we see is that the currencies are losing value. This is reflected in the euro exchange rate, the -trade-weighted exchange rate, which apparently reaches its highest level since ten years. It seems to be some topic of concerns for some members of the Governing Council. Is it something that you discussed today?

The answer to the first question, the question is; was the assessment that risks are broadly balanced shared by all Governing Council members? The answer is yes; it was shared by all. Of course there were different nuances because countries are growing at – still by the way the dispersion, I often mention this number, the dispersion in growth rates in gross value added across the euro area is at its lowest historically. We have to go back to the early '90s to find the same low rates of dispersion. Still when you look forward, you certainly have countries where growth is more buoyant, countries where growth may be less buoyant and downward revisions may be more significant. That may well be not because of external factors but because of endogenous facts that we haven't seen yet really. We have to appreciate that in the coming months. But the overall assessment was shared by all governors.

About the emerging market countries, exchange rate effects on the euro area, we briefly touched on that in one specific context, when we say that the foreign demand is weaker for the euro area, and this may be due to the stronger exchange rate of the euro, we have to keep in mind that the depreciation of the Turkish lira actually accounts for much of that effect. That was the context in which we briefly discussed that. But we have to say that really in the aggregate, what's happening in Argentina and Turkey so far doesn't show any significant spillover, although at a level of individual institutions one may well see significant exposures to local realities.

Does the European Central Bank or economic staff exclude that a country in the eurozone by the end of the summer of 2019/2020 will go into recession?

Has QE been used well by the various euro area countries?

By and large, yes, it's been used well in the sense that the intended effects of the QE – mind, I speak for the aggregate of the euro area. This holds also for the other question you asked me. We can speak for the aggregate of the euro area and we project what I just said about growth rates for 2019/2020. In terms of going back to whether countries have used it well or not, yes, they used it well in a sense because we see a pickup in growth everywhere. It reduced dispersion in growth rates everywhere. An employment situation which is by and large improving almost everywhere, some countries more than others.

If your question is meant to say; shouldn't governments have taken advantage of the situation of such low rates to decrease budget deficits, to restore? Well, they should do it certainly, they should definitely do it: rebuild fiscal buffers, take the opportunity of low interest rates to carry out a sound economic policy with a budget which is growth friendly. Keep in mind that this is a good situation for doing that.

My first question is on your growth and inflation outlook. You describe your growth outlook as broadly balanced. What about the outlook for inflation; is this also broadly balanced, or is it to the downside or to the upside?

My second question is on reinvestment. You mentioned earlier that it's also up to the committees to discuss that. Would you say that these reinvestments are first and foremost a technical process? Have you today explicitly asked the committees to come up with proposals on reinvestments?

About inflation: I said inflation is going to hover around the present level for the rest of the year and then I gave numbers for next year and 2020. Basically, these numbers are the result of two different components. We project slightly lower oil prices but significantly stronger core inflation. That's because of the underlying strength of the economy and the rising wages. Now, of course nominal wage growth is higher in countries like Germany and lower in other countries. By and large, even though underlying inflation remains muted, by and large we see pickup in nominal wage growth everywhere. This leads us to say that the projection of inflation we've given, which is the result of these two components, will reach our objective over the medium term.

We don't carry the same risk analysis for inflation as we do with growth. To some extent – but not completely – to some extent the two things are interrelated. But this assumes that lower growth translates immediately into lower inflation in the long term. There have been times when this was true. There are times when this isn't true so we have to judge there, basically. So the projections that we have on inflation reflect oil prices and all the other components of the inflation rate definition.

On reinvestment: I said the committees because certainly it's not a simple question so it has to be worked out technically well. Then we can actually discuss in the Governing Council, but there will have to be preparation to that extent.

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